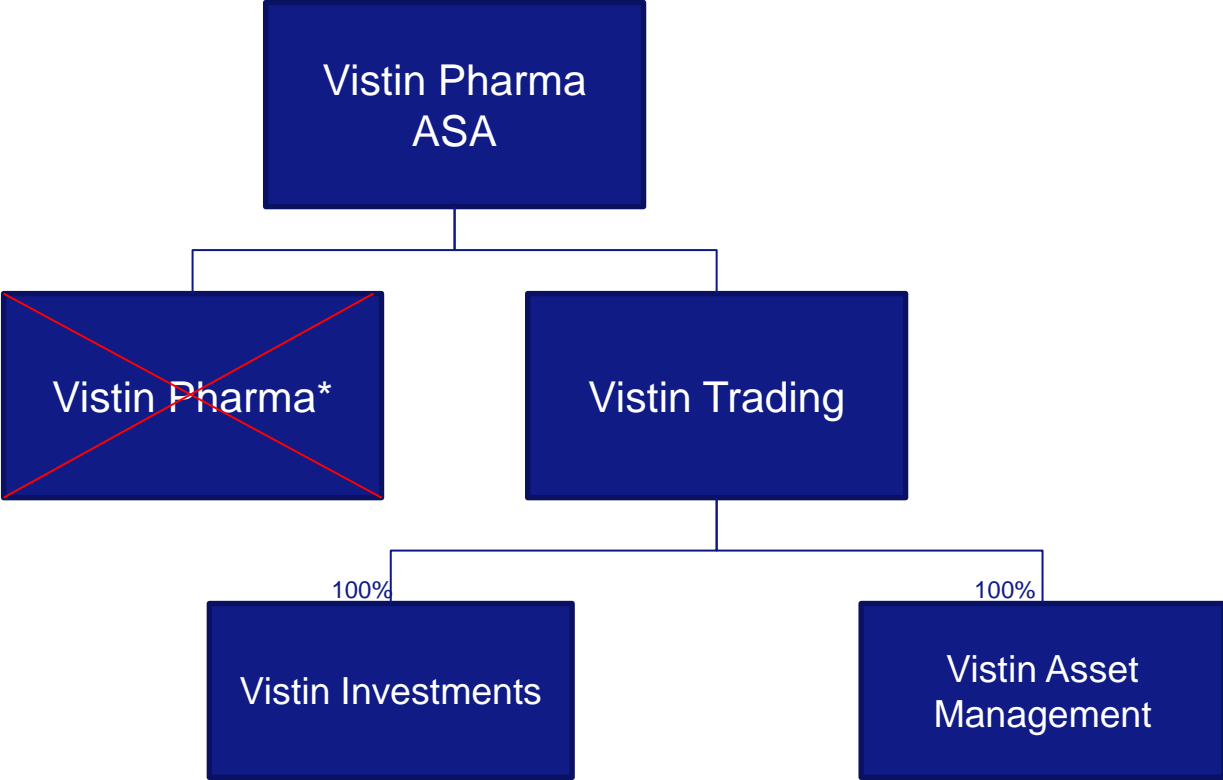




# Vistin Trading An Energy World of Opportunities

# Organizational Structure



\*To be divested

# Vistin Trading

- Lead by Torbjørn Kjus & Kenneth Tveter

## Torbjørn Kjus

17 years of experience in analysing the global crude and refined products markets

11 years as Chief Oil Analyst in DNB Markets

6 years as an oil analyst and trader in Norsk Hydro and BP trading in London



Ranked the number 1 analyst in Norway independent of sector in addition to being ranked the number 1 analyst in the Oil & Gas sector for the past 4 years

Regularly updates the US Treasury in Washington on the global oil market and provides consultations to the Norwegian Ministry of Petroleum and the Norwegian Pension Fund (NBIM)

## Kenneth Tveter

10 years in sales and trading with DNB Commodities focused mainly on Energy and Shipping

5 years as Head of Commodities Americas building up DNBs Oil Market desk in New York covering large US E&Ps and major international shipping companies



Prior to joining DNB, Tveter worked as an equity researcher covering E&P at Handelsbanken

# Strategy And Business Model

- Investing in asymmetric risk-return in the energy space

## Business Strategy

The Energy Trading Business seeks to identify, analyse and profit from asymmetrical investment opportunities caused by fundamental changes in the energy markets

Opportunities identified through detailed supply and demand forecasting based on fundamental, macroeconomic and physical market information combined with various technical market indicators

The team has a demonstrated track record of seeking out profitable investments in the oil market and the knowledge to optimally execute trading strategies

Strict risk management principles to be put in place in order to protect invested capital

Open mandate with opportunistic approach

Depending on the final structure, the Company may require a licence from the Financial Supervisory Authority of Norway

Structure with dedicated closed-end funds for specific market opportunities will be considered

## Investment Process

Continuous monitoring and in-depth analysis of oil market fundamentals

Identify investment opportunities with return profile skewed to the upside

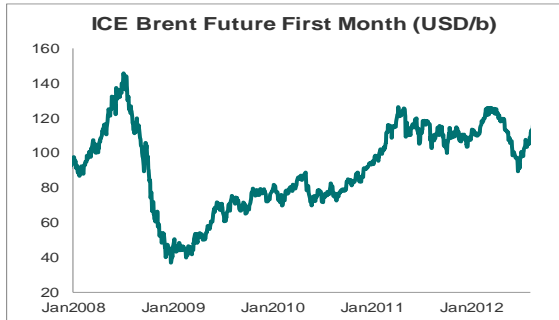
Structure trades and build positions

Active approach to risk management

# Previous Trade Recommendations In The Oil Market

- The team has a strong record of calling major trends in the oil market

## The price recovery in 2010-12

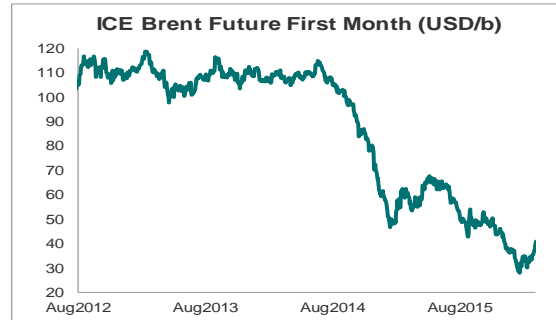


### December 2008: Bull Call on Crude

Made a major bullish call on Brent when the spot price collapsed to below 40 \$/b, predicting a rise to above 100\$/bbl within 2012.

By January 2011 Brent spot traded back above 100 \$/b before topping off around 125 \$/b \$/b 3 months later.

## The shale revolution



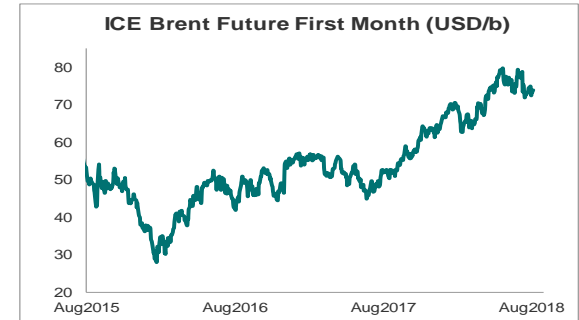
### August 2012: Short Crude

Released “Fat lady has started to sing” and called for lower crude prices due to the US shale revolution when Brent was trading at 115\$/bbl.

### 2013: Trade the Spread:

The shale revolution also led to a blow out of the WTI-Brent spread due to lack of pipeline infrastructure.

## The price recovery of 2016-17



### 4q 2015: Bullish Call on Crude

Called the price bottom in 4q 2015 and predicted higher prices in 2016-2017 due OPEC cuts and higher demand.

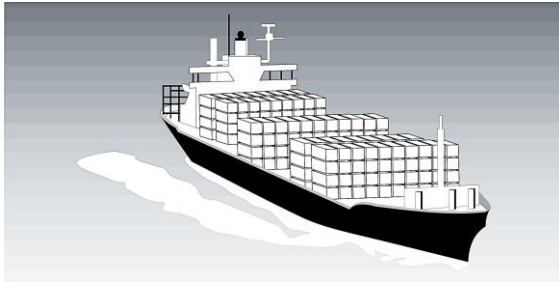
### Dec 2016: Long IMO

The new IMO regulations will lead to major implications within the whole oil and refined products spread.

# Fundamentally Based Investment Themes

- Investments to be theme-based grounded in fundamental analysis

## IMO 2020



New regulations from the International Maritime Organization (IMO) will dramatically reduce the permitted sulphur level in bunker fuels from 2020

This will have a profound effect on the composition of marine fuel demand, with implications for crude oil and refined product prices

The effects of IMO 2020 are yet to be priced into the commodity market, giving rise to a number of trading opportunities with highly attractive risk-reward characteristics

## Crude qualities

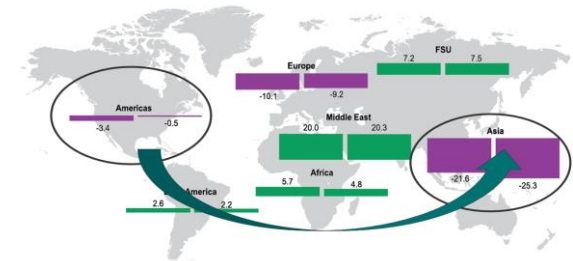


North American shale oil is expected to continue to show significant growth in the coming years but the majority of the crude is API 40+

This creates a major challenge for the US refineries, which are predominantly rigged for heavier crudes and could eventually lead to bigger crude differentials

With global demand for crudes in the 30-40 API range on the rise and a limited supply side we forecast increased focus on crude differentials and interesting investment opportunities in the medium term

## Supply & Demand Origin



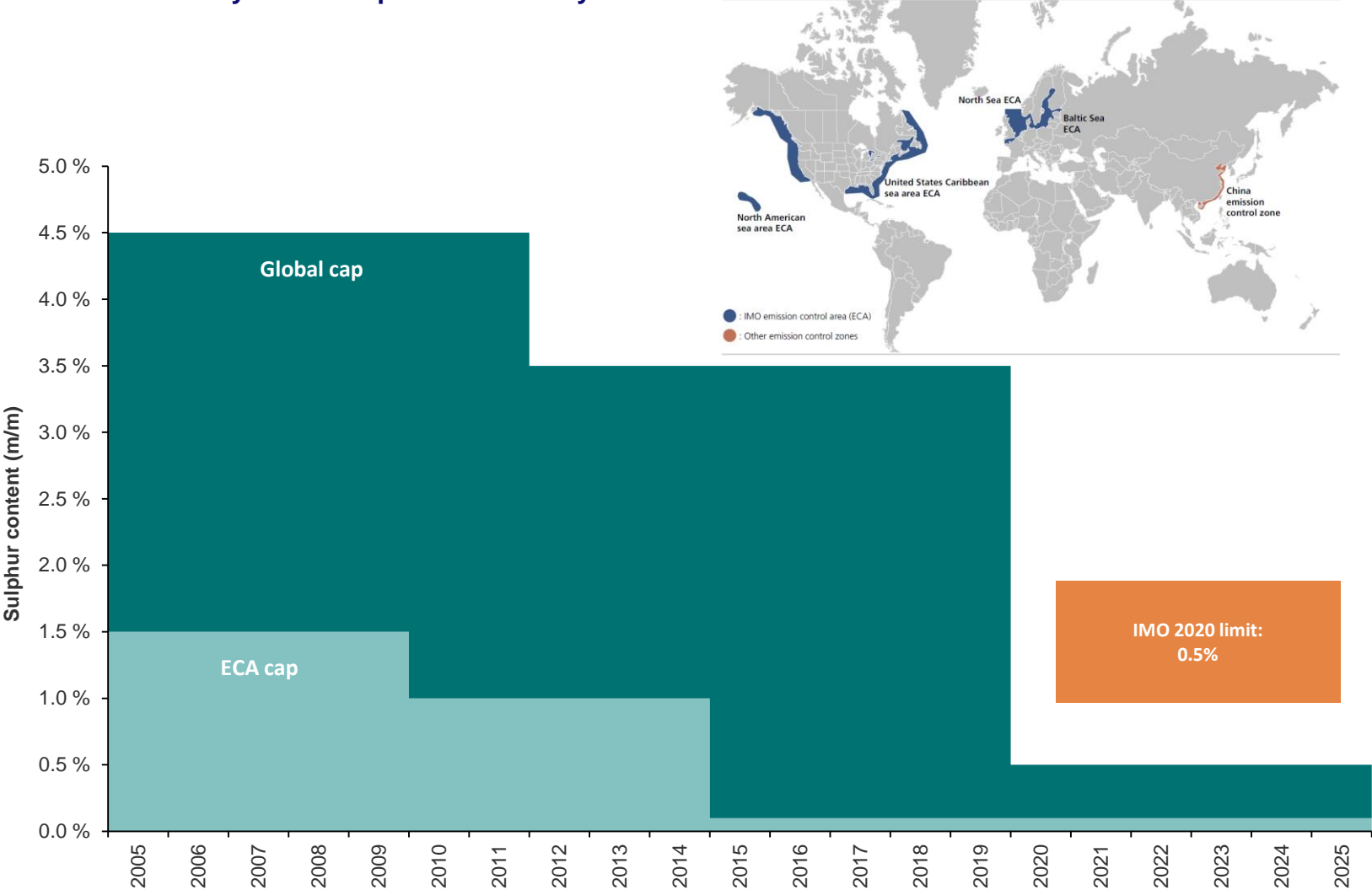
With North America being the predominant source of supply growth and Asia the most significant market for demand, global trade patterns for crude are rapidly changing.

As US exports of light crude start to increase significantly we expect crude arbs to widen as WTI will weaken relative to market

Change in supply and demand dynamics will create investment opportunities as both trade arbitration opens and ton miles increase

# Global Bunker Fuel Specs Are Changing In January 2020

- Final decision taken by IMO to implement January 1<sup>st</sup> 2020



# Sulphur Change In Shipping Long Over Due

Implementation of 0.5% sulphur was decided in 2008 while October 2016 was last chance to postpone to 2025

- **Shipping represents 7% of global transportation demand but 90% of sulphur emissions in global transportation.**
  - One cruise ships emissions equals 1 million cars per day
- **IMO Study: 570,000 premature deaths from 2020-2025 if sulphur content in bunkers is not reduced**
  - How do you as a politician bring costs into the arguments when this is the starting point?
- **Delay is now impossible - But what if this new regulation cause a global recession if oil prices increase too much?**
  - We could see politicians react if Brent is pushed way above 100 \$/b on this. Politicians will surely not be proactive on the price-issue they will be reactive.
- **Scrubbers will not save the day - may be able to reach about 2,000 installed by 2020 (23,000 ships in tankers/containers/bulkers alone)**
  - But compliance to the new regulations will be low some say, there will be a lot of cheating/waivers
  - Waivers will only be given to ships who cannot find compliant fuels and compliant fuels (MGO) will be available, it will just be much more expensive...
  - Trades between countries belonging in emerging markets is only 15% of the trade volume, so in 85% of trade a developed country is involved
  - Large ships and hence large companies account for the majority of fuel consumption (28% of the ships is behind 85% of the trade)
  - Reputational risk is a large concern for large companies
    - Loss of insurance coverage and loss of banking relationship
    - Black listing by large charterers (BP, Shell, Exxon, etc)
  - Carriage ban on HSFO from ships that do not have a scrubber looks to be implemented (final vote in October)
    - This will make cheating much more difficult as the port can inspect ships and logs. Compliance monitoring is moved from flag state to the port. The health effects on sulphur hits the electorates in the ports, hence local politicians will be pressuring hard for enforcement.



# How To Comply With New IMO Bunker Standards?

- Only two real options within a 2020 perspective

## 1 Use compliant fuels

Forego additional investments and burn compliant fuels, 0.5% sulfur fuel for open seas and 0.1% sulfur in ECAs.

## 2 Invest in Scrubbers

Scrubber investments have been rather limited thus far due to timing uncertainty and challenging economic environments for most shipping sectors.

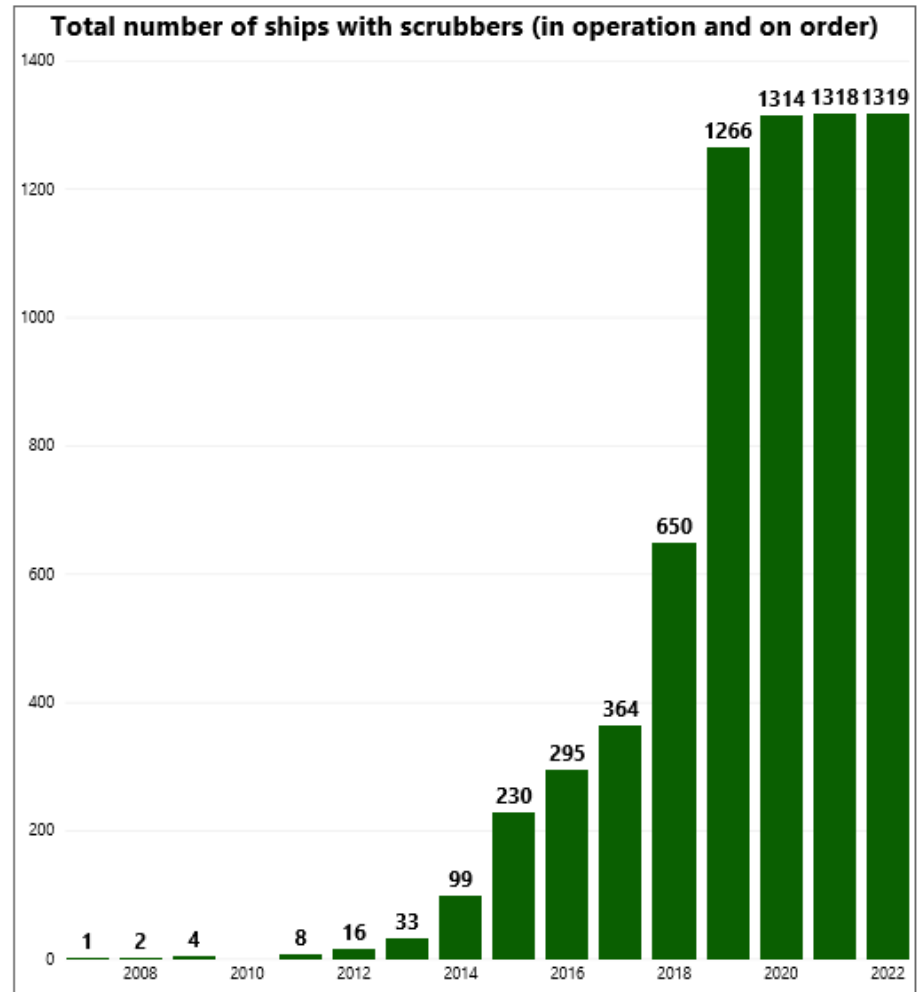
## 3 Invest in Dual Fuel Engines

Invest in dual fuel engines capable of burning either LNG or liquid fuels.

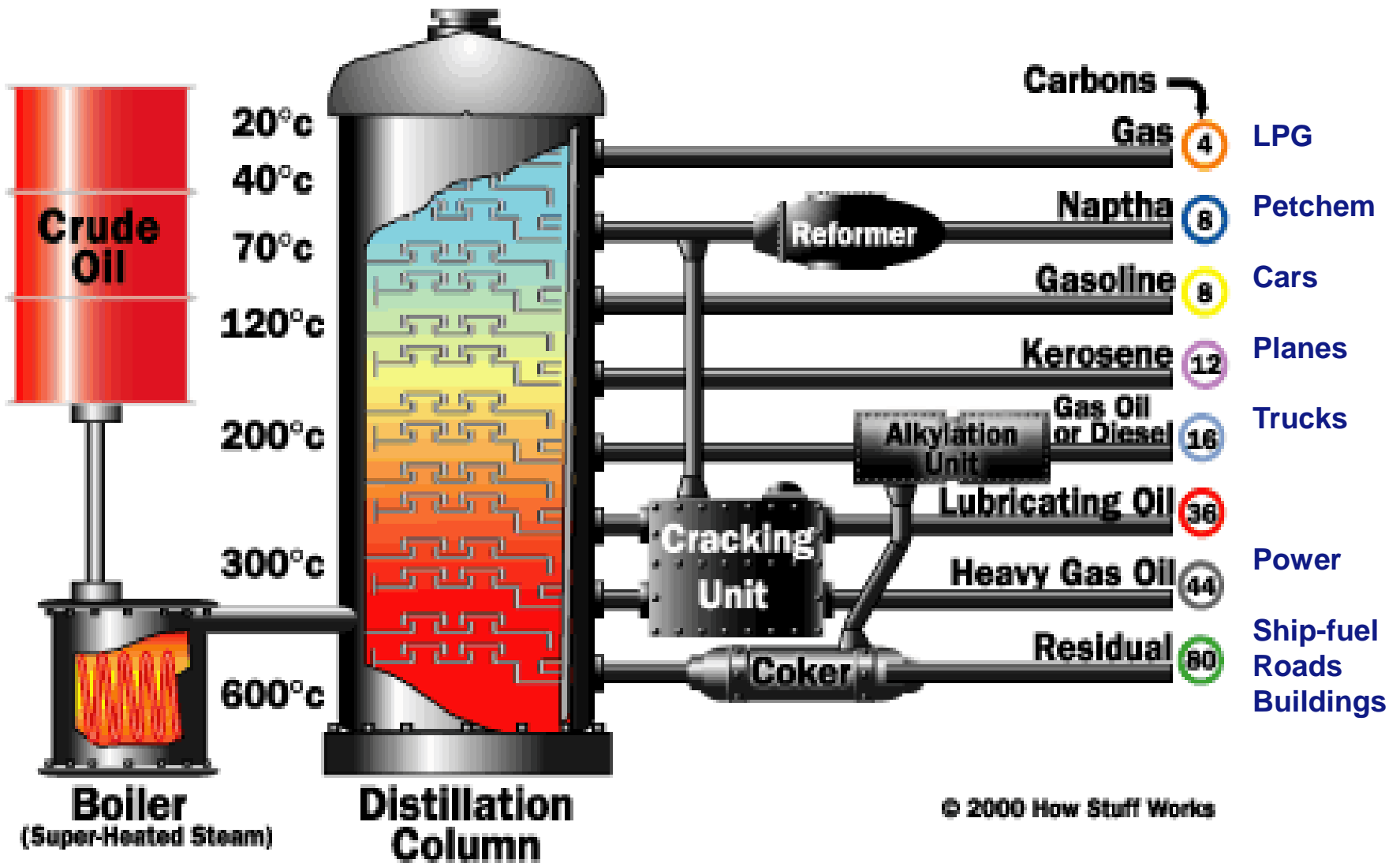
- However, these engines are expensive and LNG bunker is not commonly available (except for LNG carriers) due infrastructure constraints.
- Currently LNG makes up around 2.5% of marine fuel consumption and both technology and infrastructure are evolving slowly. Not meaningful in a 2020 perspective.

# Scrubbers Will Not Have A Meaningful Impact By 2020

- Limited scrubber orders/installations this far; 1314 vessels from 27 suppliers according to DNV report from September 2018. The 3 largest vendors (Wartsila, Alfa Laval, Yara Marine) market share is 70%
- Total number of Merchant vessels globally are 90,000 according to IEA (MTOMR 2017). Out of this 23,000 are tankers/bulkers/container lines according to Clarksons.
- Those 23,000 vessels consumes most of the 3.5% sulphur global bunker fuels today
- IMO study assumed 3,800 vessels operating with scrubbers by January 2020, consuming 630 kbd (165 b/d per scrubber)
- It is now about one year delivery time from order to installation. This means time is about to run out for deliveries before January 2020.



# Crude Oil Refining - Simplified



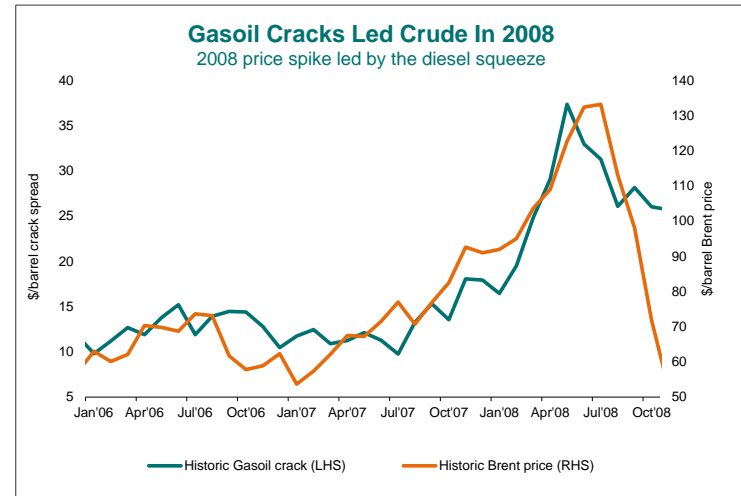
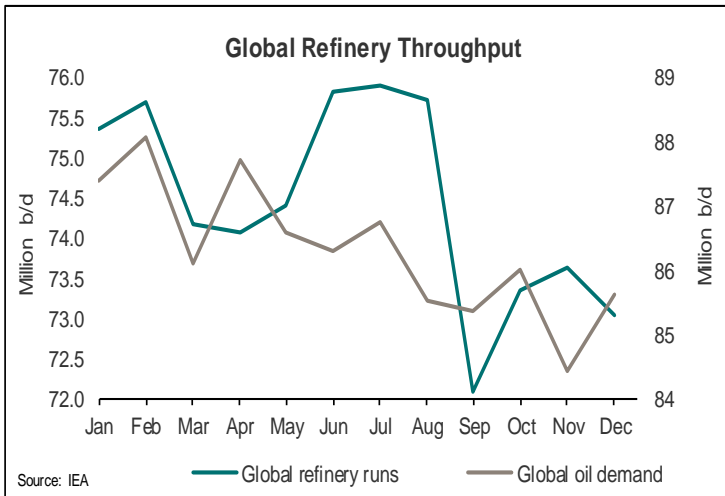
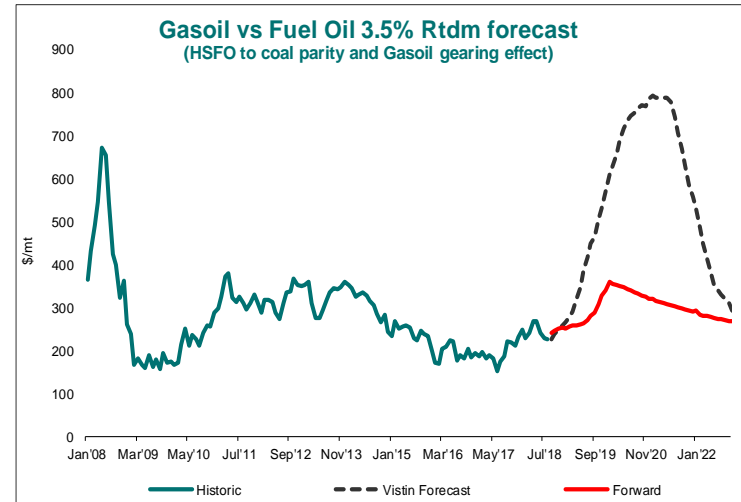
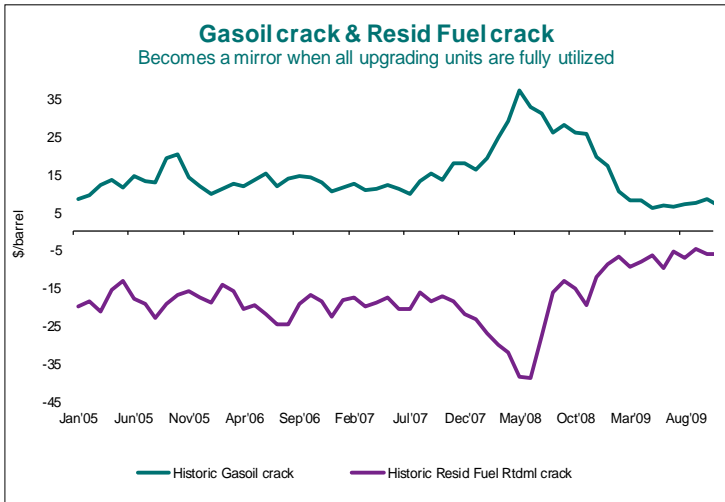
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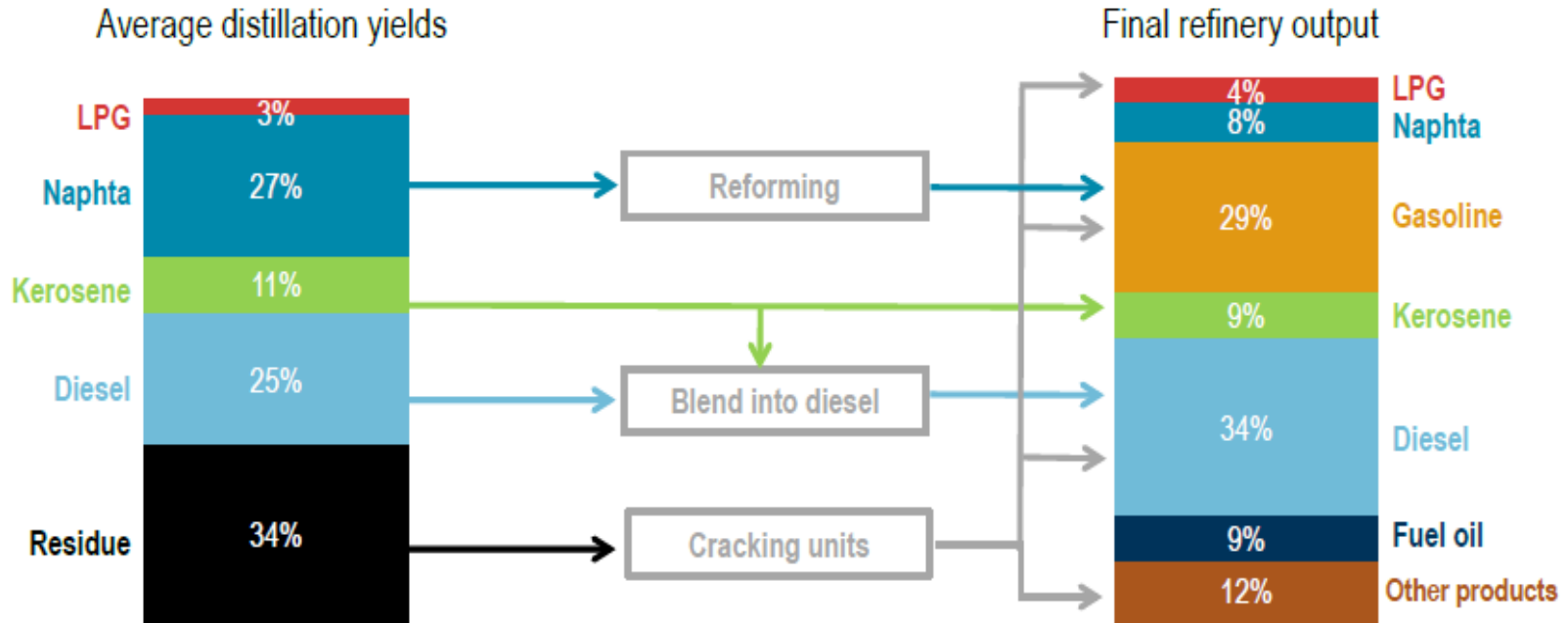
# What Will Happen To The Gasoil vs Fuel Oil Spread?

- Gasoil vs fuel oil spreads set to blow out significantly & a repetition of the 2008-diesel squeeze could happen



# How Refiners Meet Final Oil Product Demand

- Upgrading units are necessary to shift the yields

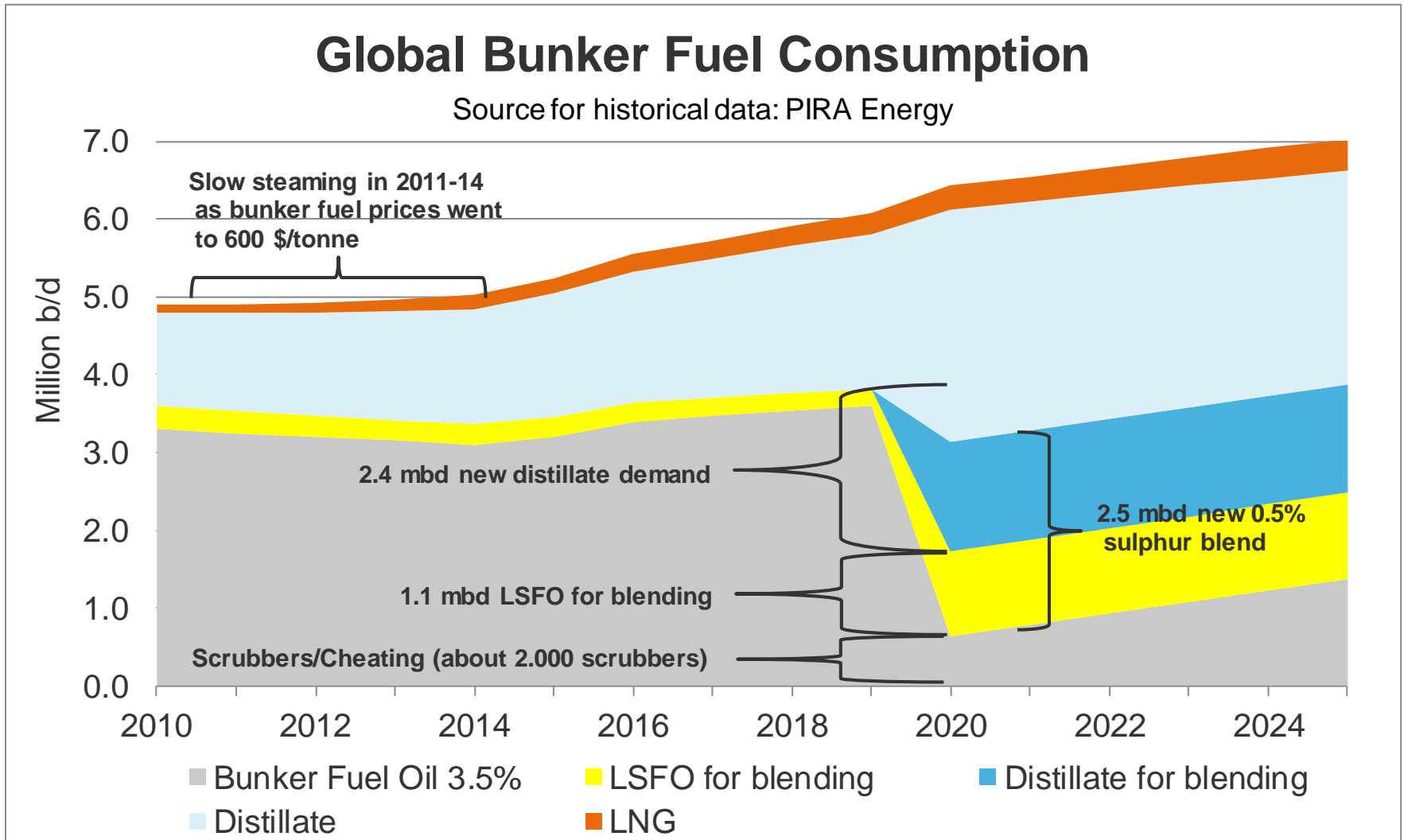


## New technology:

- Slurry-cracker can get 90% or more gasoil output with resid fuel as feedstock
- But building time is at least 3 years
- Not so tempting for refiners to invest in desulphurization of 3.5% Resid Fuel
- Because 1% Resid Fuel is also a waste product (cheaper than crude)

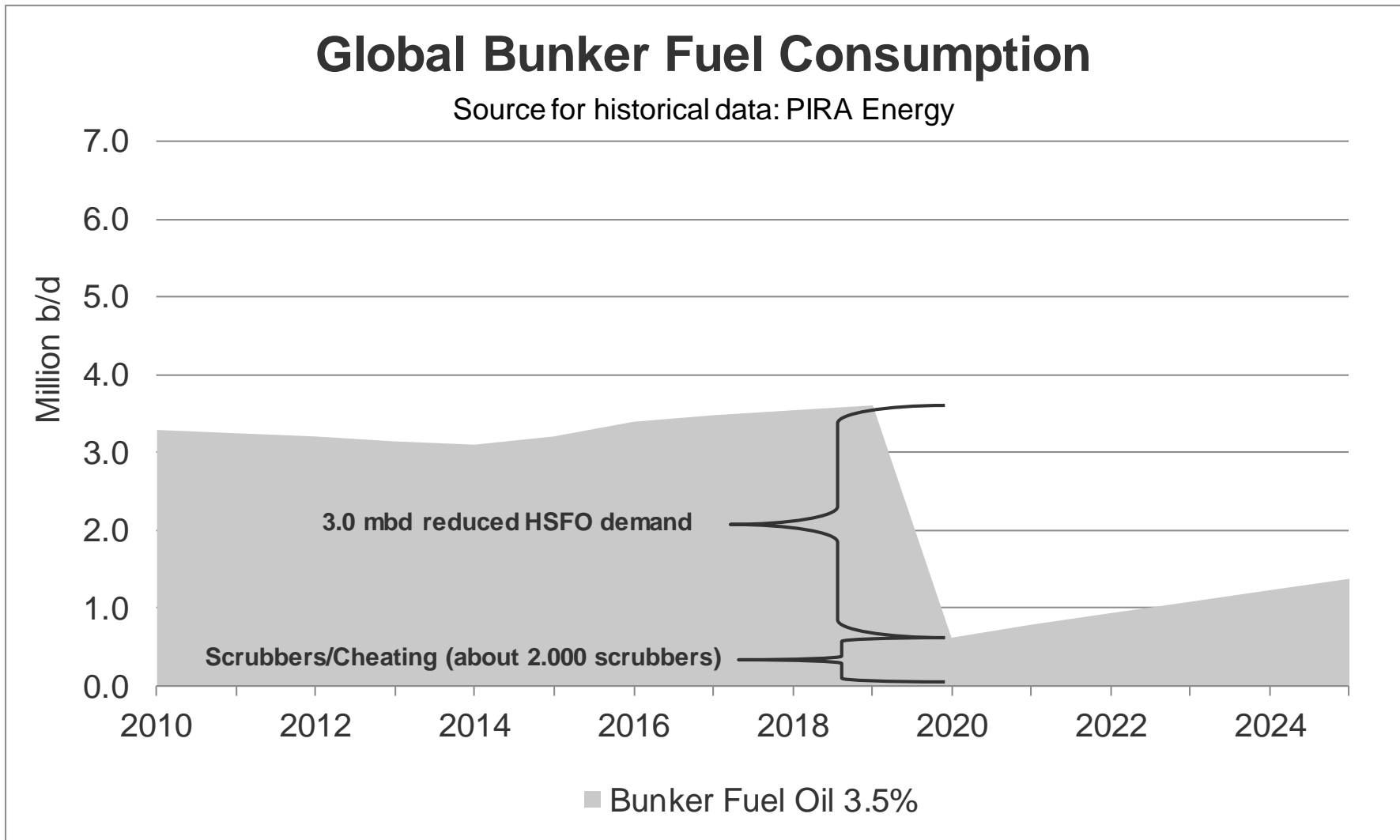
# Bunker Fuel Specs Are Changing In January 2020

- Gasoil will likely be a much larger part of bunker fuel in the future, and a large shift of 2.4 million b/d is predicted for 2020



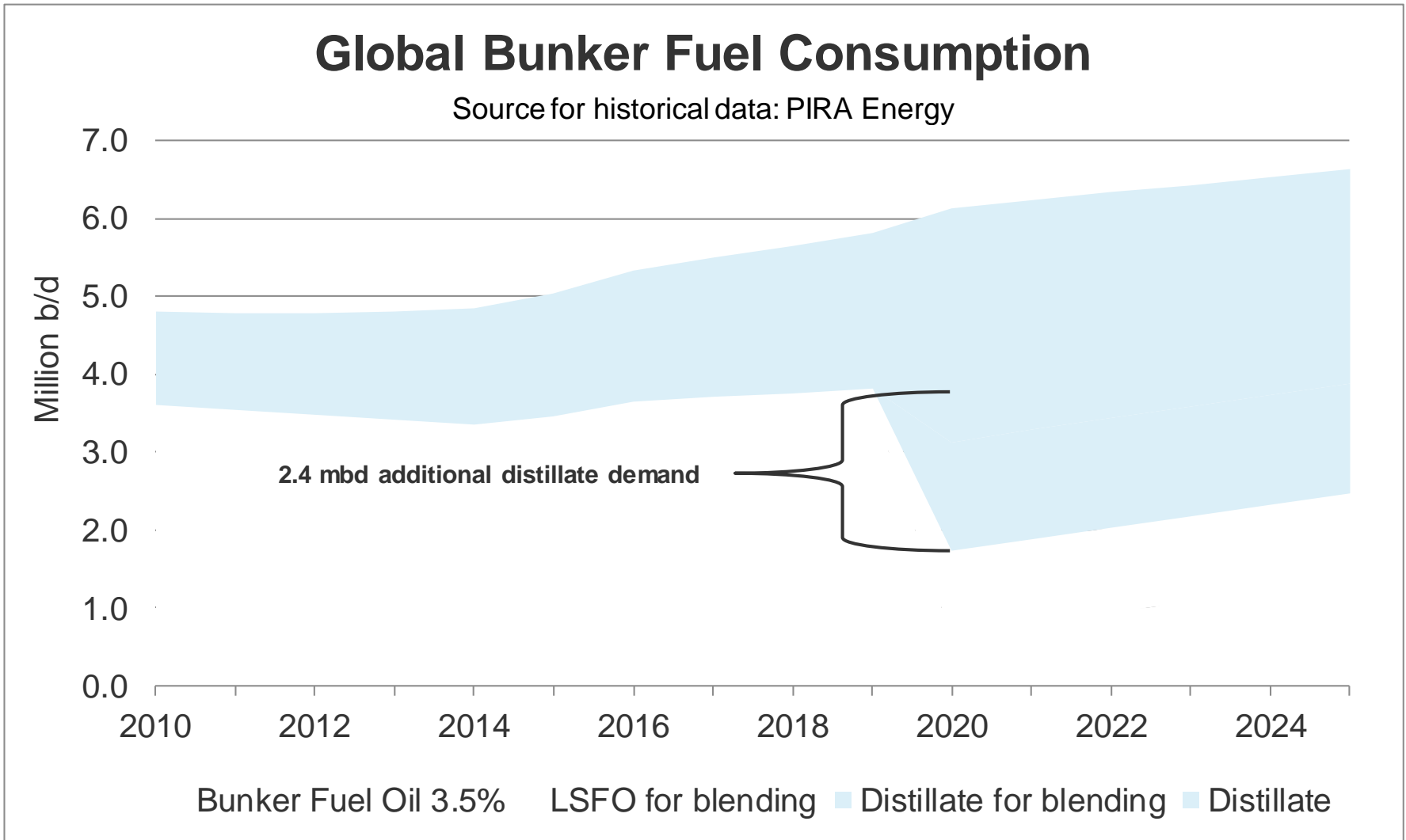
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# Bunker Fuel Specs Are Changing In January 2020

- Gasoil will likely be a much larger part of bunker fuel in 2020 – Both by direct consumption and by blending



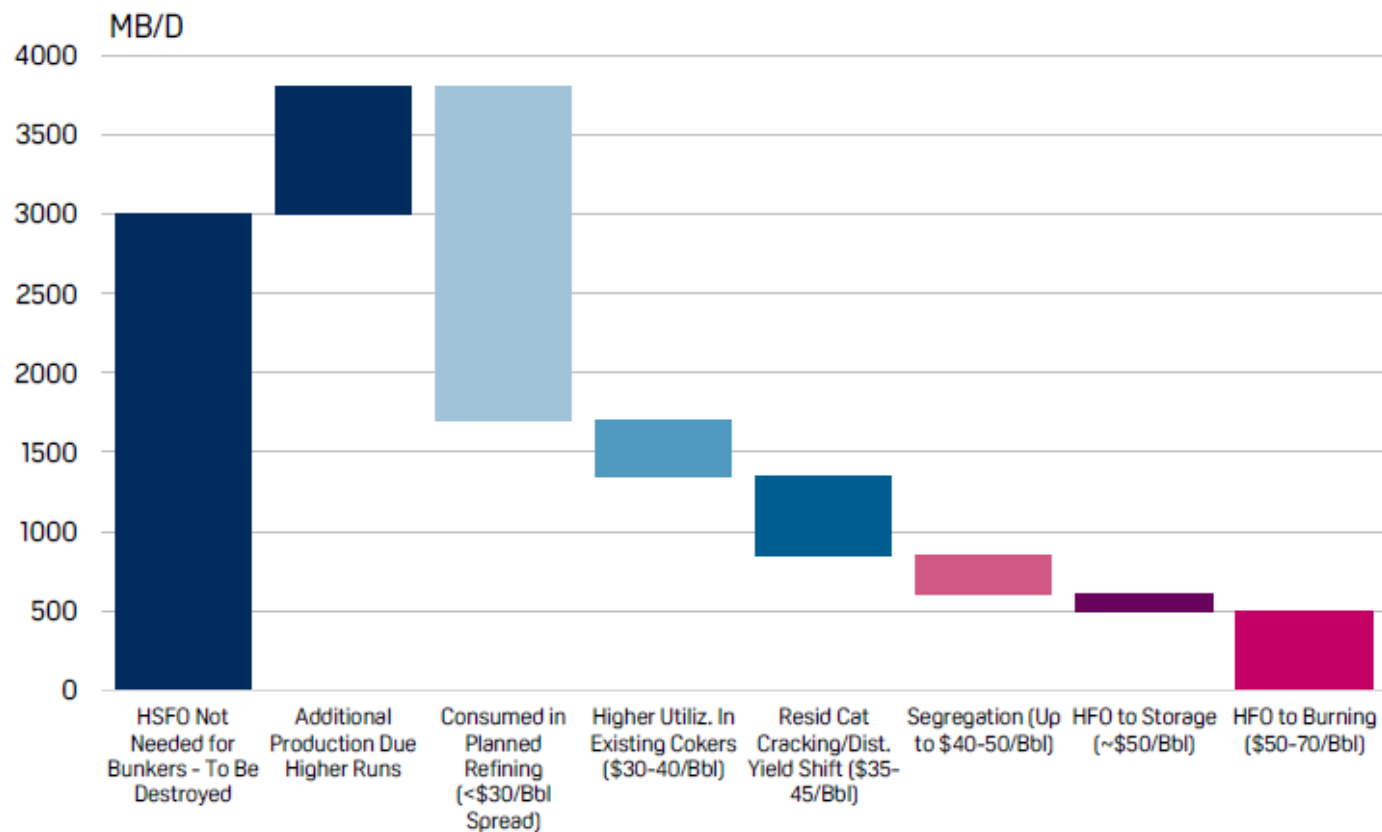


# More Expensive Refinery Processes Required

- It will be required to store and burn HSFO in power generation – This is not priced into the fwd-market

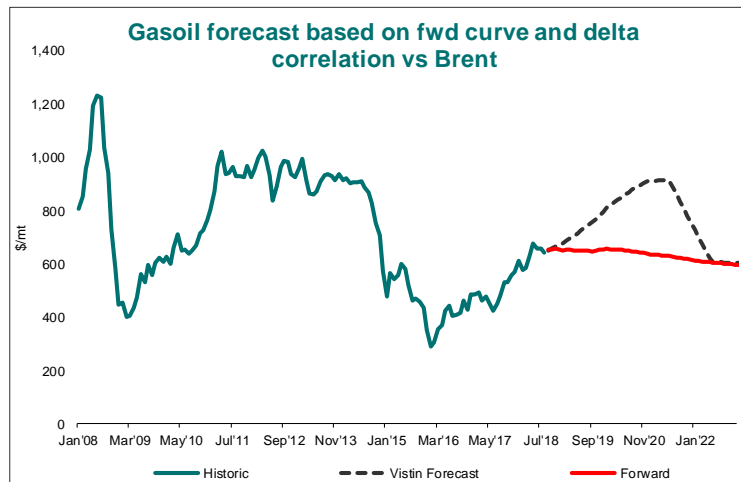
## HIGH SULFUR HFO BALANCE IN 2020 REQUIRES USE OF STEPS OF INCREASING COST, DRIVING CLEAN-DIRTY SPREADS WIDER

HSFO DESTRUCTION IN 2020 VERSUS 2017



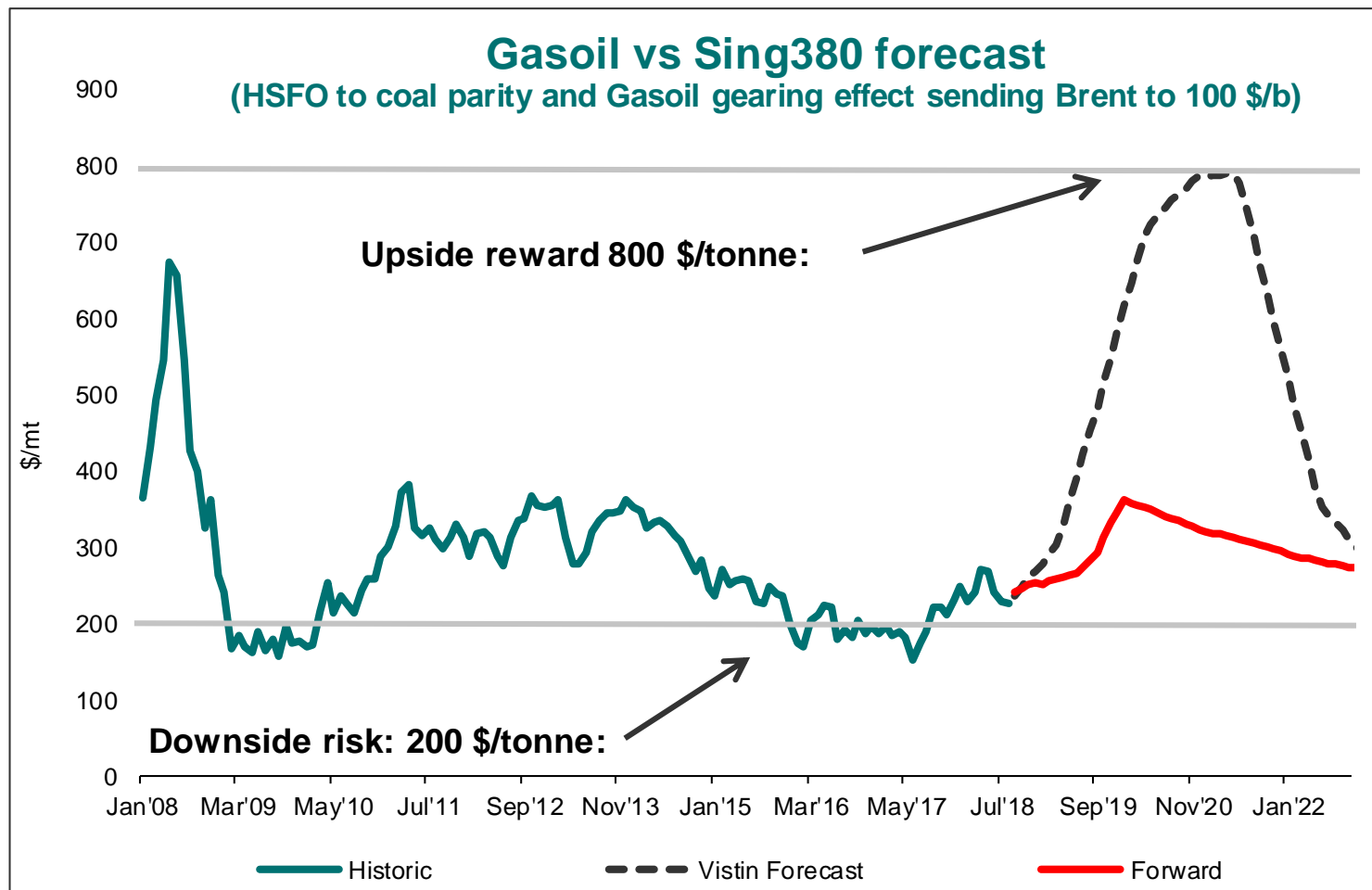
# We Believe The Market Is Mispricing Both Resid Fuel & Gasoil

- If high sulphur resid fuel falls to coal parity it should drop to about 125 \$/tonne (forward price for Coal API2 in 2020)



# The Risk-Reward Very Skewed To The Upside

- If Resid Fuel drops to coal parity and lack of gasoil/diesel creates crude gearing effect, the upside is very large



# Positions That Will Be Under Evaluation

- Vistin Trading has a wide trading mandate covering swaps, futures and options within the energy space

- **Time spreads (trading the shape of the forward curve)**
  - Trading example is to buy June 2019 Brent and to sell Dec 2019 Brent – A view on crude fundamentals
- **Crack spreads (trading the differential between the crude price and the refined product price)**
  - Trading example is to buy Gasoil and sell Brent – A view on Gasoil fundamentals
- **Product diffs (trading the differential in price between refined products)**
  - Trading example is to sell High Sulphur Resid Fuel and buy ICE Gasoil – A view on IMO 2020 for example
- **Crude price spreads (quality differentials)**
  - Trading example is to buy Brent and sell Dubai – A view on the product market expressed through crude differentials
- **Regional arbitrage spreads for crude and refined products**
  - Trading example is to buy WTI and sell Brent – Mainly a view on freight and logistics
- **Trade equities in the oil/energy space**
  - Trading example is to buy shares in a complex refiner to express a view on the product market
  - Buy an oil producer share that correlate with the Brent or WTI price – could be a flat price bet
- **Commodity indexes (own created indexes depending on criteria)**
  - Trading example is to every month only own commodities with a backwardated forward curve

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